

**22 September 2020**

**Inspecs Group plc**  
("Inspecs", the "Company" or "the Group")

**Interim Results**

Inspecs Group plc, a global eyewear design house and manufacturer, presents its interim results for the six months ended 30 June 2020.

**Financial highlights:**

- Revenue decreased to \$16.7m (H1 FY19: \$30.4m)
- Gross profit margin 44.5% (H1 2019: 45.9%)
- Underlying EBITDA down to \$0.7m (H1 FY19: \$6.6m)
- Reported loss before tax of \$8.3m (H1 FY19: \$5.1m profit before tax)
- Reported loss after tax of \$7.5m (H1 FY19: \$4.7m profit after tax)
- Reported Basic Earnings Per Share (EPS) of \$(0.11) (H1 2019: \$11.96), with diluted EPS of \$(0.11) (H1 2019: \$10.91)
- Strong balance sheet with net cash at 30 June 2020 of \$10.5m (31 December 2019: net debt of \$13.7m)

**Operational highlights:**

- Despite the restrictions of Covid-19, operations remained functional and the business transitioned to a work from home basis where possible
- Construction work on our Vietnam plant has made good progress during the first half despite the Covid-19 related travel restrictions and it is expected to be ready for frame production shortly
- Created new B2B digital platform for trade customers, launched in H2 2020
- Post period end, acquired assets of lens manufacturer Norville cementing Inspecs' vertically integrated offering

**Robin Totterman, CEO of Inspecs, said:**

*"Whilst it is disappointing to have to report an underlying EBITDA of \$677k for the Group's maiden Interim Results, I am pleased with the progress we have made over the last few months in bringing the business back to profitability.*

*"I would like to thank our employees across the globe who in difficult circumstances have risen to the challenges that they have been faced with and have been flexible and creative in helping provide solutions for our business to operate in an efficient and productive manner. We have also taken the opportunity to invest in the business and I am pleased to have launched the Group's new digital B2B platform for trade customers earlier this month.*

*"The acquisition of Norville post period end was of strategic importance for the Group and significantly increases our lens expertise and manufacturing capability. The integration is progressing well, and the business is delivering steady growth.*

*"Although 2020 as a whole will be severely affected by Covid-19, current indications are that the second half of the year will see a continued improvement in the business performance over the first half. The Group is now back to generating 'underlying EBITDA' and, notwithstanding the impacts of any new lockdowns, I am cautiously optimistic for the second half of the year and continue to look to the Group's long-term future with confidence."*

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**Tel: +44 (0) 20 3727 1000****About Inspecs Group plc**

Inspecs is a Bath based designer, manufacturer and distributor of eyewear frames and optically advanced spectacle lenses. The Group produces a broad range of frames and lenses, covering optical, sunglasses and safety, which are either “Branded” (either under licence or under the Group’s own proprietary brands), or “OEM” (including private label on behalf of retail customers and un-branded). Following the acquisition of lens maker Norville, Inspecs combined two heritage brands in British optical, Savile Row frame maker, and Norville lens maker, further enhancing its vertically integrated business model. As one of only a few companies that can offer this one-stop-shop solution to global retail chains, Inspecs is well positioned to continue to take market share in the globally expanding eyewear market.

Inspecs customers include global optical and non-optical retailers, global distributors and independent opticians, with its distribution network covering over 80 countries and reaching approximately 30,000 points of sale. In FY19, the Group generated 24.9 percent of its revenue in the UK and 75.1 percent internationally.

Today Inspecs has operations across the globe: with offices in the UK, Portugal, Scandinavia, the US and China (Hong Kong, Macau and Shenzhen), and manufacturing facilities in Vietnam, China and more recently, Italy.

The Group’s growth strategy going forward is to: (i) continue to grow organically; (ii) undertake further acquisitions (and drive value through leveraging the Group’s internal capabilities); and (iii) extend the Group’s manufacturing capacity.

More information is available at: <https://inspecs.com>

**CHIEF EXECUTIVE REVIEW**

Firstly, I would like to welcome all new shareholders to Inspecs Group plc since our admission to AIM on 27 February 2020. During January and February, the Group performed ahead of budget. However, shortly after admission, the global landscape for the eyewear sector changed dramatically due to Covid-19. In March various European countries began entering Covid-19 related lockdown and most major markets for our products started to close. Alongside this, the distribution hubs of the global chains that the Group supply closed and thus orders that were due to ship in March and over subsequent months were delayed or in some cases cancelled. As a result, on a comparative basis, our turnover for the six months to 30 June 2020 reduced by 45%, our gross profit reduced by 47% and our underlying EBITDA reduced from \$6.6m to \$0.7m.

During March we therefore assessed the market, produced a new forecast for the business under Covid-19 restrictions and started work on reducing operating costs. The Board and Executive Management team immediately took pay cuts, which are still in force and reviewed on a monthly basis. Most of our teams around the globe were reduced to a 4-day working week with a 20% pay cut, and the health and safety of our employees was paramount in all areas in which we operate.

I am grateful for the work that was carried out by our employees in quickly arranging to relocate to working from home and dealing with the challenges that arose so that within one week we had effectively, where necessary, reopened operations from a home base.

We offered logistical support and fulfilment to a number of NHS Trusts by supplying PPE safety glasses and goggles and continue to do so.

We have utilised the government's Coronavirus Job Retention Scheme and furloughed a small number of staff who were not able to perform their duties from home, mainly in field sales and UK and Italian manufacturing roles.

Whilst the Group's order books remained flat during March, April and May as the full effect of the lockdowns became apparent, I am pleased to report that performance in April, May and June was ahead of our Covid-19 forecast. Simultaneously, the Group's operational costs on a month-by-month basis have been reduced by over 20% and we continue to focus on cost reductions where possible.

The Group has maintained growth in its sales to online retailers, with branded sales to online retailers of \$0.8m in H1 2020, compared to \$0.3m in H1 2019.

Construction work on our Vietnam plant has continued through the first half and into H2 and I am pleased to report that it will shortly be ready for production. This state-of-the-art facility will significantly increase the Group's production capacity and we will look to transfer some personnel and expertise from our Chinese facility as soon as the border between China and Vietnam reopens.

#### **Queen's Award for Enterprise**

On 22 April 2020, it was announced that the Group had won the Queen's Award for Enterprise: International Trade for Outstanding Short-Term Growth in overseas sales over the last three years. This marked the second time Inspecs has won this prestigious award, having first won it in 2007.

#### **Board Change**

On 12 May 2020, Angela Farrugia was appointed to the Board of Inspecs as a Non-Executive Director. Angela co-founded TLC (The Licensing Company Ltd) in 1996, which became one of the largest licensing companies in the world, creating licensing partnerships for major global brands and helping to extend their Intellectual Property into sectors such as food, beverage, clothing and home furnishing.

#### **Acquisition**

Post period end, the Group completed the acquisition of the manufacturing operations of The Norville Group Ltd ("Norville") from the Administrator, BDO LLP, for a total cash consideration of £2.4m on 13 July 2020. The acquisition includes £1.2m of freehold property for Norville's Gloucester site with the remainder for stock, plant, IP and contracts. Norville is a long-established manufacturer of optically advanced spectacle lenses, supplying optical retailers with complete spectacles, including well-known brands, and is considered to have the most advanced portfolio of spectacle lenses in the UK. This acquisition further cements Inspecs' one stop shop, vertically integrated solution package to our customers and allows us to digitally supply a fully glazed frame and lens package to the consumer. The integration of Norville is progressing well and we are pleased to have been able to employ 80 of the original team to help us embed and grow the business. I would like to take this opportunity to thank those employees who, under extremely difficult circumstances, worked during the business's administration to deliver on customer orders and keep the company trading. I look forward to providing a further update on progress later in the year.

Acquisitions remain a key pillar in the Group's strategy and we will continue to evaluate further opportunities to deliver earnings enhancing growth.

#### **Current Trading and Outlook**

Our Covid-19 reforecast was based on our estimation that the market would remain closed until the beginning of September 2020 but I am pleased to report that we saw a recovery in sales and orders at the end of the first half which has continued to accelerate. The majority of the Group's global retail chains and independent opticians have now reopened and, whilst it is apparent that footfall is reduced while outlets are operating under Covid-19 restrictions, the numbers of customers actually transacting as a proportion has increased.

The second half has started well and we have experienced a significant increase in our order book. At the end of August, this was in excess of the order book at the same time in 2019 but caution is required when looking at

that number as, clearly, global retail chains have started to use up their existing stock supplies and are thus reordering but whether this is sustained going forward will be dependent on further lockdowns and the general state of the economy and consumer spending.

The Group has invested through lockdown and into H2 in creating a new digital B2B platform for trade customers. This e-commerce platform allows new and existing customers to see and order the entire catalogue of Inspects products in one place. The look, feel and user experience has been modelled on B2C e-commerce websites, with the intention of making buying Inspects frames and sunglasses as easy as possible. Trade customers will be able to enjoy free shipping with all orders placed on the e-commerce platform and can also benefit from brand and seasonal promotions. Following successful beta testing in the summer, the new platform was launched in September.

Although 2020 as a whole will be severely affected by Covid-19, current indications are that the second half of the year will see an improvement in the business performance over the first half. The Group is now back to generating 'underlying EBITDA' and, notwithstanding the impacts of any new lockdowns, I am cautiously optimistic for the second half of the year and continue to look to the Group's long-term future with confidence.

**Robin Totterman**  
**22 September 2020**

#### **FINANCIAL REVIEW**

As outlined above, the Group's financial performance has been severely impacted by the Covid-19 pandemic across all key metrics.

#### **Revenue**

Revenue decreased 45% to \$16.7m (H1 FY19: \$30.4m) due to the impact of the Covid-19 pandemic on our customers.

#### **Gross Margin**

The Group saw a marginal fall in its gross margin from 45.9% to 44.5%.

#### **Net Operating Expenses**

The Group's operating expenses remained flat at \$9.2m (H1 FY19: \$8.9m) despite increased costs related to that of a plc.

#### **Underlying EBITDA**

The Group delivered underlying EBITDA of \$0.7m (H1 FY19: \$6.6m).

#### **Finance Expenses**

At the time of IPO, the Group had a loan facility with HSBC which was replaced with a multi-currency revolving credit facility. Finance expenses of \$1.6m include \$1.0m relating to historic capitalised loan arrangement fees being written off on refinancing (no cash impact in period). At the end of the first half, the Group had drawn down \$17.0m of the new facility and had undrawn headroom of \$8.0m available.

#### **Cash Position**

The Group has a strong balance sheet and at the end of the period it had net cash (being cash and equivalents less bank loans and overdrafts) of \$10.5m (31 December 2019: net debt of \$13.7m).

#### **Earnings Per Share**

The Group's basic earnings per share decreased to \$(0.11) from \$11.96. On a fully diluted basis, the decrease was from \$10.91 to \$(0.11).

#### **Underlying EBITDA**

The below table shows how Underlying EBITDA is calculated:

	6 months ended 30 June 2020	6 months ended 30 June 2019	12 months ended 31 December 2019
	\$'000	\$'000	\$'000
<b>Revenue</b>	16,727	30,391	61,247
<b>Gross Profit</b>	7,439	13,957	27,536
Operating expenses	(9,167)	(8,873)	(19,591)
<b>Operating (loss)/profit</b>	<b>(1,728)</b>	<b>5,084</b>	<b>7,945</b>
Movement in fair value on derivatives	(727)	1,219	2,865
<b>Operating (loss)/profit after movement in derivative</b>	<b>(2,455)</b>	<b>6,303</b>	<b>10,810</b>
Add back: Amortisation	484	548	1,088
Add back: Depreciation	1,155	1,006	2,037
<b>EBITDA</b>	<b>(816)</b>	<b>7,857</b>	<b>13,935</b>
Add back: Share based payment expense	766	-	1,917
Add/(less) back movement in fair value on derivatives	727	(1,219)	(2,865)
<b>Underlying EBITDA</b>	<b>677</b>	<b>6,638</b>	<b>12,987</b>

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the period ended 30 June 2020

	Notes	<i>Unaudited</i> 6 months ended 30 June 2020 \$'000	<i>Unaudited</i> 6 months ended 30 June 2019 \$'000
<b>REVENUE</b>	2	16,727	30,391
Cost of sales		(9,288)	(16,434)
<b>GROSS PROFIT</b>		7,439	13,957
Other operating income		27	137
Distribution costs		(239)	(344)
Administrative expenses		(8,954)	(8,666)
<b>OPERATING (LOSS)/PROFIT</b>		(1,728)	5,084
Movement in fair value on derivatives	8	(727)	1,219
Initial public offering costs		(2,442)	-
Non-underlying costs - restructuring	9	(91)	-
Exchange adjustments on borrowings		(1,774)	(410)
Finance costs	10	(1,570)	(763)
Finance income		19	-
Share of profit of associates		-	17

<b>(LOSS)/PROFIT BEFORE INCOME TAX</b>		(8,312)	5,147
Income tax		823	(442)
		<hr/>	<hr/>
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		(7,489)	4,705
<b>OTHER COMPREHENSIVE INCOME:</b>			
Exchange adjustment on consolidation		(1,490)	-
		<hr/>	<hr/>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>		<u>(8,979)</u>	<u>4,705</u>
<b>Earnings per share</b>			
Basic profit for the period attributable to the equity holders of the parent	5	<u>(0.11)</u>	<u>11.96</u>
Diluted profit for the period attributable to the equity holders of the parent	5	<u>(0.11)</u>	<u>10.91</u>

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2020

	Notes	<i>Unaudited</i> <i>As at</i> <b>30 June 2020</b> \$'000	<i>As at</i> <b>31 December 2019</b> \$'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill		11,982	12,798
Intangible assets		15,930	17,482
Property Plant and equipment		11,980	11,637
Investment in associates		53	53
Deferred tax		1,167	1,221
		<hr/>	<hr/>
		41,112	43,191
<b>CURRENT ASSETS</b>			
Inventories		8,450	8,715
Trade and other receivables	6	8,731	12,875
Cash and cash equivalents		28,589	6,595
		<hr/>	<hr/>
		45,770	28,185
<b>TOTAL ASSETS</b>		<hr/> <b>86,882</b> <hr/>	<hr/> <b>71,376</b> <hr/>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital		924	62
Share premium		59,448	21,628
Foreign currency translation reserve		(461)	1,031
Share option reserve		867	2,840
Merger reserve		6,977	-
Retained earnings		(9,321)	5,787
<b>TOTAL EQUITY</b>		<hr/> 58,435 <hr/>	<hr/> 31,348 <hr/>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities - borrowings			

Interest bearing loans and borrowings	8	17,401	12,651
Deferred tax		2,762	2,917
		<u>20,163</u>	<u>15,568</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	5,611	10,192
Right of return liability		454	476
Financial liabilities - borrowings			
Interest bearing loans and borrowings	8	599	4,974
Bank overdrafts	8	-	93
Invoice discounting	8	47	2,577
Derivative	8	-	3,536
Tax payable		1,574	2,612
		<u>8,285</u>	<u>24,460</u>
<b>TOTAL LIABILITIES</b>		<u>28,448</u>	<u>40,028</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>86,882</u>	<u>71,376</u>

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the period ended 30 June 2020

	Called up share capital \$000	Share premium \$000	Translation reserve \$000	Share option reserve \$000
<b>SIX MONTHS ENDED 30 JUNE 2020</b>				
Balance at 1 January 2020	62	21,628	1,031	2,840
Share based payment	93	4,627	-	(1,973)
Total comprehensive income	-	-	(1,490)	-
Share for share exchange	589	-	-	-
Capital reduction	-	-	-	-
Allocation of shares on exercise of C options	22	4,203	-	-
Allocation of shares on initial public offering	157	28,990	-	-
<b>Balance at 30 June 2020 (unaudited)</b>	<u>924</u>	<u>59,448</u>	<u>(461)</u>	<u>867</u>
<b>SIX MONTHS ENDED 30 JUNE 2019</b>				
Balance at 1 January 2019	62	21,628	1,030	647
Share based payment	-	-	-	112
Total comprehensive income	-	-	-	-
<b>Balance at 30 June 2019 (unaudited)</b>	<u>62</u>	<u>21,628</u>	<u>1,030</u>	<u>759</u>

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOW**  
For the period ended 30 June 2020

	Notes	Unaudited 6 months ended 30 June 2020 \$000	Unaudited 6 months ended 30 June 2019 \$000
<b>Cash flows from operating activities</b>			

(Loss)/profit before income tax	(8,312)	5,147
Depreciation charges	1,155	1,006
Amortisation charges	484	548
Share of profit of associates	-	(17)
Share based payments	766	87
Movement in fair value of derivatives	727	(1,219)
Exchange adjustments on borrowings	1,774	410
Finance costs	1,570	763
Finance income	(19)	-
	<b>(1,856)</b>	<b>6,725</b>
Decrease in inventories	266	1,558
Decrease in trade and other receivables	4,143	2,943
Decrease in trade and other payables	(4,605)	(2,501)
Cash generated from operations	<b>(2,051)</b>	<b>8,725</b>
Interest paid	(481)	(618)
Tax paid	-	(113)
<b>Net cash flow from operating activities</b>	<b>(2,532)</b>	<b>7,994</b>
<b>Cash flows (used in)/from investing activities</b>		
Purchase of intangible fixed assets	(72)	(81)
Purchase of property plant and equipment	(265)	(831)
Interest received	19	-
Net cash flows (used in)/from investing activities	<b>(318)</b>	<b>(912)</b>
<b>Cash flow from financing activities</b>		
Bank loan principal repayments in year	(2,307)	(2,250)
Repayment of other loans	(2,530)	(233)
Inflow from Initial Public Offering	30,313	-
Principal payments on leases	(590)	(362)
Net cash flows used in financing activities	<b>24,886</b>	<b>(2,845)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>22,035</b>	<b>4,237</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>6,502</b>	<b>1,232</b>
Net foreign currency movements	52	(341)
<b>Cash and cash equivalents at end of period</b>	<b>28,589</b>	<b>5,128</b>

## NOTES TO THE INTERIM CONSOLIDATED STATEMENTS

For the period ended 30 June 2020

### 1. GENERAL INFORMATION

Inspeks Group plc is a public company limited by shares and is incorporated in England and Wales. The address of the Company's principal place of business is Kelso Place, Upper Bristol Road, Bath BA1 3AU.

The principal activity of the Group in the period was that of design, production, sale, marketing and distribution of high fashion eyewear and OEM products worldwide. The principal activity of the Company was that of a holding company.



## 2. ACCOUNTING POLICIES

### Going concern

Based on the Group's forecasts considered in the light of the Covid-19 situation, the Directors have adopted the going concern basis in preparing the interim financial statements.

The assessment has considered the Group's current financial position as follows:

- The Group improved its cash position during the period with \$30m being generated through admission to the AIM market of the London Stock Exchange (pre-IPO expenses).
- The Group's net assets were \$58.4m at the end of the period, with a reduction in the Group's borrowings by \$2.2m to \$18.0m.

The assessment has considered the current measures being put in place by the Group to preserve cash and ensure continuity of operations through:

- Taking steps to reduce operating costs through reducing executive management pay by 60% and reducing working hours by 20% for Head Office employees.
- Ensuring continuation of its supply chain buildings on the benefit of having its own manufacturing sites and by securing alternative third-party supply lines.
- Maintaining geographical sales diversification, focusing sales to online customers and seeking new revenue streams including the supply of safety eyewear to the NHS and other customers around the globe.

### Basis of preparation

The interim consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting and with accounting policies that are consistent with the Group's Annual Report and Financial Statements for the period ended 31 December 2019.

The comparative financial information for the period ended 30 June 2019 in this interim report does not constitute statutory accounts for that period under 434 of the Companies Act 2006 and is unaudited.

Accounting policies are included in detail within the latest annual report, with policies pertinent to the period as below.

On 10 January 2020, a share for share exchange occurred whereby existing shareholders of Inspecks Holdings Limited were exchanged shares in Inspecks Group Limited, subsequently Inspecks Group plc. Shareholders of each type (Ordinary, B and C) in Inspecks Holdings Limited were issued with Ordinary shares in Inspecks Group Limited, with one share in Inspecks Holdings Limited equating to 137.37 shares in Inspecks Group Limited. Therefore, balances up to 10 January 2020 reflect those of Inspecks Holdings Limited, with balances after this date being of Inspecks Group plc.

As part of the share for share exchange, a merger reserve was created within merger relief applied as per section 612 of the Companies Act 2006. Subsequently, a capital reduction amounting to \$58.8m (£45.0m) was applied to the merger reserve, treating this balance as realised profits.

### Financial instruments – liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

The Group's and Company's financial liabilities previously included the option to subscribe for C equity shares treated as derivatives, due to exhibiting all three of the below characteristics:

- Change in value in response to changes in a variable
- No initial investment is required
- It is settled at a future date

These were settled in full during the period.

#### *Subsequent measurement*

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

The Group has not designated any financial liability as at fair value through profit or loss except for share options held as derivatives with the movement in fair value passing through profit or loss.

#### *Financial liabilities at amortised cost (loans and borrowings)*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement. This category generally applies to interest-bearing loans and borrowings.

#### *Financial liabilities at fair value through profit or loss*

Gains or losses on liabilities are recognised in the income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### **3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Group's historical information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities in the future.

#### Estimation uncertainty

In addition to the impact of Covid-19 discussed within the going concern section of note 2, the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. These are consistent with those disclosed in the annual report for the year ended 31 December 2019.

## Uncertain tax positions

Tax authorities could challenge and investigate the Group's transfer pricing or tax domicile arrangements. As a growing, international business, there is an inherent risk that local tax authorities around the world could challenge either historical transfer pricing arrangements between other entities within the Group and subsidiaries or branches in those local jurisdictions, or the tax domicile of subsidiaries or branches that operate in those local jurisdictions.

As a result, the Group has identified it is exposed to uncertain tax positions, which it has measured using an expected value methodology. Such methodologies require estimates to be made by management including the relative likelihood of each of the possible outcomes occurring, the periods over which the tax authorities may raise a challenge to the Group's transfer pricing or tax domicile arrangements; and the quantum of interest and penalties payable in addition to the underlying tax liability. As a result, the Group has made a provision of \$2,603,000 as at 30 June 2020 (\$2,046,000 as at 30 June 2019), in line with the accounting methodology used as at 31 December 2019.

## 4. SEGMENT INFORMATION

The Group operates in five operating segments, which result in two reporting segments;

Branded product distribution

Wholesale – being OEM and manufacturing distribution

The criteria applied to identify the operating segments are consistent with the way the Group is managed. In particular, the disclosures are consistent with the information regularly reviewed by the CEO and the CFO in their role as Chief Operating Decision Makers, to make decisions about resources to be allocated to the segments and assess their performance.

The process by which reporting segments were identified included a review of qualitative and quantitative characteristics of each operating segment, including revenue stream, the nature of products, customers, distribution methods and profit margins. Operating segments considered to supply product through similar mechanisms of supply chain have then been aggregated. Further, the business model and revenue streams between the two reportable segments are distinct. Head office costs have been fully allocated to the branded segment.

The reportable segments subject to disclosure are consistent with the organisation model adopted by the Group during the six months ended 30 June 2020 and are as below:

	Branded	Wholesale	Total before adjustments & eliminations	Adjustments & elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External	8,627	8,100	16,727	-	16,727
Internal	<u>1,104</u>	<u>894</u>	<u>1,998</u>	<u>(1,998)</u>	<u>-</u>
	9,732	8,994	18,726	(1,998)	16,727
Cost of sales	<u>(5,886)</u>	<u>(5,167)</u>	<u>(11,053)</u>	<u>1,765</u>	<u>(9,288)</u>
Gross profit	3,845	3,827	7,672	(233)	7,439
Expenses	<u>(5,205)</u>	<u>(4,153)</u>	<u>(9,358)</u>	<u>191</u>	<u>(9,167)</u>
Operating (loss)/profit	<u>(1,360)</u>	<u>(326)</u>	<u>(1,686)</u>	<u>(42)</u>	<u>(1,728)</u>
Exchange adjustment on borrowings					(1,774)
Movement in derivatives					(727)
Initial Public Offering costs					(2,442)

Non-underlying costs - restructuring	(91)
Finance costs	(1,570)
Finance income	19
Taxation	823
Loss for the period	<u>(7,489)</u>

Reported segments relating to the balance sheet as at 30 June 2020 are as follows:

	Branded	Wholesale	Total before adjustments & eliminations	Adjustments & elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	75,019	63,259	138,278	(52,564)	85,714
Total liabilities	<u>(63,597)</u>	<u>(4,654)</u>	<u>(68,251)</u>	<u>62,140</u>	<u>(6,111)</u>
	<u>11,422</u>	<u>58,605</u>	<u>70,027</u>	<u>9,576</u>	<u>79,603</u>
Deferred tax asset					1,167
Deferred tax liability					(2,762)
Current tax liability					(1,574)
Borrowings					<u>(17,999)</u>
Group net assets					<u>58,435</u>

Total assets are the Group's gross assets excluding deferred tax asset. Total liabilities are the Group's gross liabilities excluding loans and borrowings, and deferred tax liability.

The reportable segments subject to disclosure are consistent with the organisation model adopted by the Group during the six months ended 30 June 2019 and are as below:

	Branded	Wholesale	Total before adjustments & eliminations	Adjustments & elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
External	13,384	17,007	30,391	-	30,391
Internal	<u>1,375</u>	<u>1,590</u>	<u>2,965</u>	<u>(2,965)</u>	<u>-</u>
	<u>14,759</u>	<u>18,596</u>	<u>33,355</u>	<u>(2,965)</u>	<u>30,391</u>
Cost of sales	<u>(9,196)</u>	<u>(10,076)</u>	<u>(19,272)</u>	<u>2,839</u>	<u>(16,434)</u>
Gross profit	5,563	8,520	14,083	(126)	13,957
Expenses	<u>(5,072)</u>	<u>(3,898)</u>	<u>(8,970)</u>	<u>97</u>	<u>(8,873)</u>
Operating profit	491	4,622	5,113	(30)	5,084
Exchange adjustment on borrowings					(410)
Movement in derivatives					1,219
Finance costs					(763)
Finance income					-
Share of profit of associates					17
Taxation					<u>(442)</u>
Profit for the period					<u>4,705</u>

Reported segments relating to the balance sheet as at 31 December 2019 are as follows:

	Branded	Wholesale	Total before adjustments & eliminations	Adjustments & elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	56,815	66,018	122,833	(52,678)	70,155
Total liabilities	<u>(42,618)</u>	<u>(4,676)</u>	<u>(47,294)</u>	<u>33,956</u>	<u>(13,338)</u>
	<u>14,197</u>	<u>61,342</u>	<u>75,539</u>	<u>(18,722)</u>	<u>56,817</u>
Deferred tax asset					1,221
Deferred tax liability					(2,917)
Current tax liability					(2,612)
Derivative liability					(3,536)
Borrowings					<u>(17,625)</u>
Group net assets					<u>31,348</u>

Total assets are the Group's gross assets excluding deferred tax asset. Total liabilities are the Group's gross liabilities excluding loans and borrowings, and deferred tax liability.

Acquisition costs, finance costs and income, and taxation are not allocated to individual segments as the underlying instruments are managed on a Group basis.

Deferred tax and borrowings are not allocated to individual segments as they are managed on a Group basis.

Adjusted items relate to elimination of all intra-Group items including any profit adjustments on intra-Group sales that are eliminated on consolidation, along with the profit and loss items of the parent company.

Adjusted items in relation to segmental assets and liabilities relate to the elimination of all intra-Group balances and investments in subsidiaries, and assets and liabilities of the parent company.

The revenue of the Group is attributable to the one principal activity of the Group.

#### Geographical analysis

The Group's revenue by destination is split in the following geographic areas:

	Unaudited 6 months ended 30 June 2020	Unaudited 6 months ended 30 June 2019
	\$'000s	\$'000s
United Kingdom	3,253	7,148
Europe (excluding UK)	6,726	10,674
North America	3,617	7,895
South America	278	522
Asia	1,939	2,448
Australia	914	1,704
	<u>16,727</u>	<u>30,391</u>

#### 5. EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, to the extent that the inclusion of such shares is not anti-dilutive. During the period ended 30 June 2020 the Group made a loss; therefore, diluted EPS is not applicable as the impact of potential ordinary shares is anti-dilutive. Basic earnings per share is therefore \$(0.11) (30 June 2019: \$11.96), with diluted earnings per share \$(0.11) (30 June 2019: \$10.91). The following table reflects the income and share data used in the basic and diluted EPS calculations:

	30 June 2020	30 June 2019
<i>SHARES</i>		
	\$'000	\$'000
<b>(Loss)/Profit attributable to the equity holders of the parent for basic earnings</b>	<b>(7,489)</b>	<b>4,705</b>
	Number of shares	Number of shares
<b>Weighted average number of shares for basic EPS</b>	<b>70,745,395</b>	<b>393,255</b>
Effect of dilution from: Share options	2,884,672	50,625
<b>Weighted average number of shares adjusted for the effect of dilution</b>	<b>73,630,067</b>	<b>443,880</b>

Within Inspects Group plc, each Ordinary share carries the right to participate in distributions, as respects dividends and as respects capital on winding up.

#### 6. TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 June 2020 \$'000	As at 31 December 2019 \$'000
Current:		
Trade receivables	6,707	9,815
Prepayments and other receivables	2,024	3,060
	<b>8,731</b>	<b>12,875</b>

#### 7. TRADE AND OTHER PAYABLES

	Unaudited As at 30 June 2020 \$'000	As at 31 December 2019 \$'000
Trade payables	2,857	5,193
Amounts owed to related parties	201	258
Other payables	277	280
Social security and other taxes	100	132
Royalties & provisions	690	852

Accruals	<u>1,486</u>	<u>3,477</u>
	<u>5,611</u>	<u>10,192</u>

## 8. FINANCIAL INSTRUMENTS

### Financial Assets

The financial assets of the group, all of which are classified as loans and receivables at amortised cost, comprise:

	As at 30 June 2020 (unaudited) \$'000	As at 31 December 2019 \$'000
<b>Current</b>		
Trade and other receivables	8,731	12,875
Cash and cash equivalents	<u>28,589</u>	<u>6,595</u>
	<u>37,320</u>	<u>19,470</u>

### Financial Liabilities

The financial liabilities of the Group have the following repayment schedule:

30 June 2020 (unaudited)	1 year or less \$'000	1-5 years \$'000	Total \$'000
Bank loans	599	17,401	18,000
Other loans	<u>47</u>	<u>-</u>	<u>47</u>
	<u>646</u>	<u>17,401</u>	<u>18,047</u>
 31 December 2019	 1 year or less \$'000	 1-5 years \$'000	 Total \$'000
Bank overdraft	93	-	93
Bank loans	4,974	12,651	17,625
Other loans	2,577	-	2,577
Derivative liabilities	<u>3,536</u>	<u>-</u>	<u>3,536</u>
	<u>11,180</u>	<u>12,651</u>	<u>23,831</u>

All financial liabilities are classified as financial liabilities at amortised cost, except for derivatives which are held at fair value through profit or loss. The derivative liability for the option over C equity shares (refer to note 5) has been settled on Initial Public Offering completed 27 February 2020, having been fair valued at that date to \$4,203,000.

Included within other loans are amounts relating to an invoice discounting facility of \$47,000 (31 December 2019: \$2,577,000). The Group has reduced requirement for the invoice discounting facility following cash inflow which arose from the Initial Public Offering process. The invoice discounting facility bears interest at 1.85% over base rate (31 December 2019: 1.85% over base rate). The invoice discounting facility is secured by way of fixed and floating charges over the trade receivables of Inspects Limited.

## 9. NON-UNDERLYING COSTS – RESTRUCTURING

Non-underlying costs in the period relate to redundancy costs of Algha Group Limited employees, with the site ceasing trading during the period as part of a planned movement of production to Italy.

## 10. FINANCE COSTS

Finance costs include \$964,000 relating to capitalised loan arrangement fees being written off on refinancing, with a new Revolving Credit Facility (RCF) effective from 27 February 2020 being the date of admission to the AIM market of the London Stock Exchange.

## 11. SHARE-BASED PAYMENTS

Certain employees of the Group were granted options over the shares in Inspec Holdings Limited. On the share for share exchange between Inspec Holdings Limited and Inspec Group Limited, these options were exchanged for options in Inspec Group Limited, subsequently Inspec Group plc. The options are granted with a fixed exercise price and have vesting dates of between one and three years after date of grant.

The Company (initially Inspec Holdings Limited, subsequently Inspec Group plc) recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity to share option reserve. On exercise of the shares by the employees, the Company is charged the intrinsic value of the shares by Inspec Group plc and this amount is treated as a reduction of the capital contribution, and it is recognised directly in equity.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price per option \$	Number of share options
11 October 2019	1 July 2020	1.27	320,612
11 October 2019	1 July 2021	1.27	320,475
11 October 2019	1 July 2022	1.27	320,475
27 February 2020	27 February 2023	2.52	1,923,110

The weighted average life of options outstanding at the balance sheet date was 2 years. The option weighted average exercise price is \$2.10 per share. Options were valued at the date of grant. At the balance sheet date, three staff held options over shares.

The expense recognised for employee services received during the period is shown in the following table:

	6 months to 30 June 2020	6 months to 30 June 2019
	\$'000	\$'000
Expense arising from equity-settled Share-based payment transactions	766	87
<b>Total expenses arising from share payment transactions</b>	<b>649</b>	<b>87</b>



### Movements during the period

The following tables illustrate the number and movements in share options during the period:

	2020 Number	2019 Number
At 1 January	58,965	36,855
Issued	9,977,668	-
Exercised	(7,138,224)	-
Granted	-	14,230
Forfeited	(13,737)	(460)
	<hr/>	<hr/>
As at 30 June	<u>2,884,672</u>	<u>50,625</u>
<b>WAEP</b>	2020 \$	2019 \$
At 1 January	67.46	2.94
Issued	(64.95)	-
Exercised	(0.38)	-
Granted	-	175.00
Forfeited	(0.03)	(175.00)
	<hr/>	<hr/>
As at 30 June	<u>2.10</u>	<u>49.74</u>

## 12. POST BALANCE SHEET EVENTS

Since the interim date the following events have occurred which are material in nature:

- On 10 July 2020 Norville (20/20) Limited was incorporated, with 100% of the share capital of this entity being owned by Inspects Limited, a subsidiary undertaking of Inspects Group plc. On 13 July 2020, Norville (20/20) Limited acquired trading assets from The Norville Group Limited for a cash consideration of £2.4m. These assets include freehold property, plant & machinery and stock. Some employees were also retained, with the manufacturing operations continuing to operate.